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The Honolulu Advertiser

** Tuesday, March 27, 1984 A-3

Inouye asks CIA to explain Rewald ties

By Walter Wright
Advertiser Staff Writer

U.S. Sen. Daniel Inouye said yesterday he has asked the Central Intelligence Agency to explain how it got involved with Ronald Rewald's wobbly financial empire.

Inouye, a member of the Senate Select Committee on Intelligence which oversees the CIA and other intelligence agencies, refused to talk about the results of his inquiry, because he said it involves matters which are both classified and pending in court.

"This matter has been under active consideration and close scrutiny by the agency," the senator said. "Beyond that, I cannot say anything."

But the CIA's response to Inouye is said to indicate that the agency did not know about Rewald's previous financial troubles.

The CIA-Rewald connection remains a mystery partly because the CIA often cannot or will not speak freely.

"The agency cannot openly defend itself or explain itself, because one thing leads to another," and eventually to classified information which could compromise the agency's operations, one long-time CIA watcher told The Advertiser in an interview yesterday.

"The Rewald situation is a rare case" for the CIA, and Rewald's involvement with the agency "ain't no big thing."

It is well known that the CIA

often uses legitimate companies to provide cover for agents and operations, this observer said.

"Let's say I'm an agent and the CIA wants to send me to the Philippines without identifying me as a CIA operative. The agency may approach The X Corporation, with offices in Singapore and Manila, and discuss the matter with them and say, 'How about hiring Mr. Smith as an accountant.' And so X Corporation hires Mr. Smith and pays him a regular salary and gets reimbursed by the CIA," the observer said.

Why would the CIA pick a company like Rewald's?

"You may have to take whatever you can get," the observer said. "As a general rule, most companies would shy away from this. You don't want to risk your reputation. If the word ever got out that one or more of your staff people may be employees of the U.S. government, people would not feel as free in talking to you or dealing with you."

There is no evidence that Rewald actually had a CIA agent on the payroll.

But the CIA did use Rewald's high-flying company as a mail drop and cover until the company closed its doors last July when Rewald, facing media probing of his financial problems, tried to kill himself.

Thomas Hayes, bankruptcy administrator for Rewald's company, says the only CIA money he has been able to find was \$2,744 in reimbursements for phone and telex bills over a four-year period.

During that same period, Rewald took \$20 million from investors, paid back \$10 million, diverted \$4.6 million to himself for "personal spending," and spent the rest on business expenses and unjustified interest payments, Hayes says.

Before the company collapsed in July, the CIA — worried that an IRS investigation of Rewald might expose some CIA operations — came to Honolulu and removed some materials from the company's files. The IRS then resumed its probe.

Rewald now is facing state charges of theft, and the investigation by the IRS and FBI is continuing.

Rewald is battling back with a \$671 million lawsuit against the CIA. He contends the CIA was his partner, knew how he was raising funds and can't deny it is jointly liable to investors.

Rewald insists the CIA pulled the plug on his operation, refusing to honor promises, and then broke him by disavowing its relationship with him and sealing all details as "classified."

The embattled businessman says he was a "covert agent" of the CIA and established "Bishop Baldwin Rewald Dillingham and Wong" and several other companies for the CIA's use.

Rewald even says the CIA was at fault for trusting him. He says the CIA knew he'd been through bankruptcy and a criminal conviction, but still "negligently entrusted CIA

operations" to Rewald and Bishop Baldwin.

Federal Judge Martin Pence, who has reviewed classified material found in Rewald's files and ordered much of the material sealed at the CIA's request, said Rewald had an overinflated view of the importance of his "slight involvement" with the CIA.

That is also Hayes' view. But Hayes, in an interview yesterday, said he does not discount the possibility that someone may yet prove the CIA was negligent in its dealings with Rewald.

It now appears that Rewald's initial contact with the CIA was as an informant or agent providing information about university and college student groups during the 1960s.

Rewald went on to personal bankruptcy and conviction of a misdemeanor violation of Wisconsin laws in connection with a sporting goods company he ran.

Hayes said he shares the view that the CIA did not know about Rewald's bankruptcy and business fraud conviction when it resumed dealings with him in Hawaii. But the CIA can be damned for negligence if it knew, or if it didn't know, about Rewald's past misbehavior, he said.

Hayes said the other main possibility of recovering from the CIA would be if someone could prove the CIA knew Rewald was misleading investors and didn't alert the appropriate agencies about it.

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(Front Page)

8 from CIA seen as Rewald investors

By Walter Wright
Advertiser Staff Writer

Eight of the 318 investors in Ronald Rewald's company were CIA personnel, and they placed something less than \$500,000 with the company, according to an official familiar with the case.

Two of the Central Intelligence Agency investors are already known — former Honolulu station chiefs John Kindschi and Jack Rardin.

A third CIA investor is described as a bona-fide CIA agent who was not on the company payroll but did use Rewald's firm — Bishop Baldwin Rewald Dillingham & Wong — as a cover.

Five other CIA employees

were reportedly persuaded to invest in the company by the CIA agent.

They all are said to claim that they thought they were making wise investments of their personal funds, and were no brighter than the other 310 investors who lost close to \$12 million.

But Rewald, in a \$671 million lawsuit against the CIA, is trying to prove that the money from the CIA personnel, and more, was just CIA funds pumped into the company to finance CIA operations. The CIA, Rewald insists, was his partner and caused the downfall of his company.

Rewald faces trial in June on state charges he stole investor money. The bankruptcy trustee

in the case says Rewald diverted \$4.6 million from the \$20 million investor accounts to himself for "personal spending."

Rewald says the CIA and its representatives used Bishop Baldwin investment accounts and other investments to shelter the money of highly placed foreigners and for the CIA's own use.

"Bishop Baldwin's main depository account," Rewald's suit says, "consisted of (1) funds from legitimate investors, (2) funds from the CIA, and (3) cover funds from highly placed foreigners."

Rewald says the money was used to meet company overhead, to make legitimate investments and for "CIA-directed projects."

The bankruptcy trustee says that little or no investor money ever was invested in anything and that the only CIA money he could find was \$2,744 used to reimburse Rewald for telephone and Telex bills.

Rewald's Honolulu attorney, Robert Smith, said yesterday that he intends to follow investors' dollars back to their ultimate source, "and there are a number of names I can put on a list of suspects." Smith's investigator, Dirk Von Gunther, already has asked bankruptcy officials for company records regarding the deposits of several individuals.

The search puts the CIA in a ticklish position, even if the investments were innocent, because it could lead to exposure

of employees and agents.

Some of the CIA personnel who invested got their money back; others left it in.

Retired Honolulu station chief Kindschi put in \$185,000 and withdrew \$175,000, including \$40,000 just before the company shut down in August. Kindschi had another account jointly with Hazel Kindschi, which \$40,000 was deposited and withdrawn.

John Kindschi, after retiring from the CIA, was a \$60-an-hour "consultant" with Rewald's company. Rewald says Kindschi was also a member of its board of directors. Kindschi was paid more than \$68,000 by

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Eight investors with Rewald said to be from CIA

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the company for his services.

After the company closed, it was Kindschi's complaints to authorities that led to filing of state theft charges against Rewald.

Former Honolulu station chief Rardin, transferred to another CIA assignment recently, shows up on the company books as an

investor of \$1,500 who withdrew \$2,328 in May.

And the full-fledged CIA agent who invested also withdrew not only his deposit but also the "interest" which Rewald was promising all investors, an official said.

The agent withdrew the money early last year after the CIA discovered that the Internal Revenue Service was inves-

tigating Rewald and took steps to get its agent clear of the company, the official said.

Given Rewald's admitted connections with the CIA, it is not surprising that as many as eight CIA employees ended up as investors in the company, according to one former employee of the agency.

"There are hundreds of CIA personnel who come to Hawaii,"

this source said. "It's a perfect base for operations into the Pacific and Asia."

And, he said, despite all the mystique that surrounds them, CIA employees are no strangers to investment disasters.

"At least 150 CIA people in one office I knew were investors in Bernie Cornfeld's IOS operation, and lost their shirts," he said.